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National Dairy Products Corporation

NEW YORK

ANNUAL REPORT

1935

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National Dairy Products Corporation

DIRECTORS

F. J. Andre
President, The Telling-Belle Vernon Company, Cleveland

Henry N. Brawner, Jr.
President, Chestnut Farms-Chevy Chase Dairy Company, Washington, D. C.

Henry W. Breyer, Jr.
Formerly President, Breyer Ice Cream Company, Philadelphia

Frederick J. Bridges
President, Hydrox Corporation, Chicago

Thos. K. Carnes
Secretary

N. J. Dessert
Vice-President, Detroit Creamery Company, Detroit

C. Wesley Ebling
President, Detroit Creamery Company, Detroit

E. J. Finneran
Director of Sales and Advertising

Joseph Gilfillan
Attorney, Philadelphia

Robert S. Gordon
General Counsel

B. S. Halsey
Vice-President, Sheffield Farms Company, Inc., New York

J. M. Harding
President, Harding Cream Company, Omaha

Vernon F. Hovey
President, General Ice Cream Corporation, Schenectady

Jos. L. Jones
Vice-President, Supplee-Wills-Jones Milk Company, Philadelphia

J. L. Kraft
President, Kraft-Phenix Cheese Corporation, Chicago

John H. Kraft
Vice-President, Kraft-Phenix Cheese Corporation, Chicago

B. M. Lide, Jr.
President, St. Louis Dairy Company, St. Louis

William F. Luick
President, Luick Ice Cream Company, Milwaukee

E. J. Mather
President, Southern Dairies, Inc., Washington, D. C.

Thos. H. McInnerney
President

P. P. Miller
Vice-President, General Ice Cream Corporation, Schenectady

Edward E. Rieck
Chairman of Board, Rieck-McJunkin Dairy Company, Pittsburgh

Wilbur S. Scott
President, Breyer Ice Cream Company, Philadelphia

A. A. Stickler
Treasurer

Horace S. Tuthill
Vice-President, Sheffield Farms Company, Inc., New York

L. A. Van Bomel
President, Sheffield Farms Company, Inc., New York

H. Burton Wilkerson
President, Nashville Pure Milk Company, Nashville

Frank A. Wills
President, Supplee-Wills-Jones Milk Company, Philadelphia

Henry N. Woolman
Vice-President, Supplee-Wills-Jones Milk Company, Philadelphia

Each company named above is an operating company of
National Dairy Products Corporation

National Dairy Products Corporation

OFFICERS

Thos. H. McInnerney	*President*
Frederick J. Bridges	*Vice-President*
James Bruce	*Vice-President*
Vernon F. Hovey	*Vice-President*
Wilbur S. Scott	*Vice-President*
L. A. Van Bomel	*Vice-President*
A. A. Stickler	*Treasurer*
Thos. K. Carnes	*Secretary*
A. Boag, Jr.	*Comptroller and Assistant Treasurer*
G. W. McGhee	*Assistant Secretary*
E. J. Finneran	*Director of Sales and Advertising*
Robert S. Gordon	*General Counsel*

EXECUTIVE COMMITTEE

Thos. H. McInnerney

Vernon F. Hovey — Wilbur S. Scott

J. L. Kraft — L. A. Van Bomel

TRANSFER AGENT

Bankers Trust Company
New York, N. Y.

REGISTRAR

The Chase National Bank
of the City of New York
New York, N. Y.

COUNSEL

Sullivan & Cromwell

AUDITORS

Price, Waterhouse & Co.

EXECUTIVE OFFICES

120 Broadway, New York, N. Y.

National Dairy Products Corporation

New York, N. Y., March 9, 1936.

To the Stockholders:

There is submitted herewith the annual report of National Dairy Products Corporation for the year ending December 31, 1935. Messrs. Price, Waterhouse & Co. have examined the books and accounts of the corporation and its subsidiary companies, and their certificate is appended.

These statements show that sales amounted to $290,441,357.93 in 1935 compared with $267,414,547.57 in 1934, an increase of 8.6%. Net profit for the year, after interest, depreciation, and all Federal and State taxes, amounted to $9,338,205.44, and, after allowing for payment of preferred dividends, was equivalent to $1.38 per share on the 6,263,165 shares of common stock outstanding at the end of the year as compared with 93¢ per share in 1934. Profit for the year 1935 amounted to about 3¼¢ on each dollar of sales.

It is significant to note that while earnings were increasing, better supply and demand conditions made it possible for us to pay the dairy farmer more for milk. Our farmers not only received a higher unit price during the year, but they also received a slightly larger proportion of our sales dollar. In this connection, our records show that the prices we paid our producers for milk in 1935 were about the same as those prevailing in 1931, although our selling prices were appreciably lower than they were in 1931.

Depreciation amounted to $8,861,653 in 1935, an increase of $860,914 over the preceding year. This was due principally to an increase in the rates of depreciation on trucks and passenger cars. During the year, there were substantial replacements of heavy trucks with more economical, lighter delivery equipment.

The attached balance sheet shows a strong financial position. Cash increased to $22,039,000 at the end of the year, despite substantial increases both in inventories and in expenditures for plant improvements and new equipment. As at December 31, 1935, cash alone was in excess of current liabilities.

Total expenditures for new plants, machinery and other equipment amounted to approximately $10,000,000 in 1935. Of this amount about $3,000,000 was spent on manufacturing plants. Entirely new ice cream plants were erected at Syracuse, N. Y., and Atlanta, Ga. Among the locations, close to good sources of milk supply, where the Kraft-Phenix Cheese Corporation built plants or enlarged its facilities were Freeport and Stockton, Ill., Plymouth, Green Bay, and Monroe, Wis., San Francisco, Cal., Atlanta, Ga., Houston, San Antonio, Dennison, and Victoria, Tex., Sulphur, Okla., and Warren, Ark.

During the year 1935 a suit was brought in the Federal District Court at Chicago by the Mills Novelty Company (a manufacturer of slot machines, vending machines and other machines and devices) against the International Association of Ice Cream Manufacturers and sixty other companies (most of whom are members of the Association), including your company and nine of its subsidiaries, for alleged conspiracy in restraint of trade, for which the plaintiff, in its capacity as a manufacturer of freezer equipment, claims damages of $46,929,995.12. Since the date of the attached balance sheet, another suit founded on the same alleged conspiracy has been commenced in the Federal District Court at New York City, in which twenty-two additional and different companies (most of whom again are members of the International Association of Ice Cream Manufacturers), including five of your company's subsidiaries, are named as defendants. The damages claimed in the second suit have been increased to $54,838,572.32. These suits are being vigorously defended and are believed by your management to be without merit as against the company or its subsidiaries.

In conjunction with all businesses, we are confronted with the serious problem of mounting taxes. Direct Federal, State and municipal taxes amounted to over $4,300,000 in 1935. These taxes are equivalent to 68¢ a share on the common stock and amount to $122 annually for each employee. Not only have rates been increased on present taxes, but new taxes are constantly being levied against industry. The first levy under the Social Security Act, at the rate of 1% on payroll, became effective as of January 1, 1936, and will approximate $600,000 during the current year. This tax will increase materially in subsequent years.

Your management is in sympathy with the principle of social insurance but feels that existing legislation tends to penalize those businesses that maintain steady employment in favor of those that do not. Your company is proud of its employment record. In no year during the depression did the average number of employees decline more than 14% from the peak. This decline was much less than the general average for industry. Furthermore, our employment has shown a sustained increase each year since the low point in 1933, and in 1935 was less than 4% below its record high. In our opinion, no company with such a record should be taxed in the same manner as those businesses that do not maintain steady employment.

A significant step during the past year was the formation of the Sealtest System of Laboratory Protection. All the research, bacteriological and testing laboratories in the National Dairy organization, exceeding one hundred, together with the master laboratories at Baltimore and Chicago, have been merged in one centrally directed laboratory system, the Sealtest System Laboratories, Inc. The purpose of the Sealtest system is to maintain high standards of quality in the production of our products by daily, systematic laboratory supervision and to develop new commercial uses for milk. Although this laboratory organization was only organized as a separate division of your company in 1935, its inception occurred some eight years ago when National Dairy's first research laboratory was organized in Baltimore. Your management feels that the Sealtest System of Laboratory Protection, explained in some detail to our stockholders last July, is a forward step in the dairy industry which should be of benefit to both consumers and dairy farmers. To achieve further consumer "visibility" for the type of work being performed daily through the Sealtest laboratories, an experimental kitchen has been installed in Radio City under the supervision of a

director outstanding in the field of nutrition and diet. The work of the Sealtest kitchen will be directed to the attention of the housewives to whom your company sells milk, ice cream and other dairy products.

After careful consideration, your Board of Directors is proceeding with a plan which contemplates the refunding of the outstanding 5¼% Gold Debentures due 1948 through bank loans of approximately $7,000,000 at 2½% interest, maturing semi-annually over a period of five years, and through the sale of $62,545,500 of 3¾% 15-year Debentures carrying warrants evidencing the right to purchase within a limited period of years 10 shares of common stock in respect of each $1,000 Debenture. Funds obtained upon the exercise of these warrants will be applied to the retirement of 3¾% Debentures. It is intended that the new Debentures will be offered first to the common stockholders of the company, and any balance not subscribed will be sold to underwriters. It is believed that this plan is to the distinct advantage of the stockholders of the company because of the resulting substantial reduction in interest charges. These new debentures must be registered with the Securities and Exchange Commission and, until the registration statement becomes effective, no offering can be made. When the registration does become effective a copy of the prospectus, with full details of the offering, will be sent our stockholders.

It is with regret that we learned of the death, on March 5, 1936, of Henry W. Breyer, senior, founder of Breyer Ice Cream Company, one of our larger subsidiaries. Although Mr. Breyer withdrew from all active participation in our business and resigned from our Board of Directors some years ago, we desire to pay tribute at this time to his achievements during his active career as a pioneer and builder in the ice cream industry.

We also announce with regret the death of George S. Jackson on June 20, 1935. Mr. Jackson was a member of the Board of Directors and also president of Western Maryland Dairy Corporation. The benefit of his many years of experience and loyal service will be greatly missed.

This opportunity is taken by the Board of Directors to thank the employees and executives of our operating companies for their efforts during the year.

By order of the Board of Directors,

THOS. H. MCINNERNEY,
President.

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CONSOLIDATED BALANCE SHEET

Assets

Current and Working Assets:			
Cash in banks and on hand		$ 22,039,090.23	
Marketable securities at cost, less reserve for market depreciation		226,023.00	
Notes receivable	$ 1,320,811.34		
Accounts receivable	16,388,061.59		
	$17,708,872.93		
Less—Reserve for doubtful notes and accounts	2,862,867.35	14,846,005.58	
Inventories at cost or market, whichever is lower		18,897,681.98	
Miscellaneous supplies		2,685,621.39	
Cash surrender value of life insurance		234,642.44	
			$ 58,929,064.62
Investments and Advances:			
Company's common stock—8,633 shares at cost		$ 199,815.70	
Investments in and advances to affiliated companies and miscellaneous securities (including securities on deposit with State insurance departments)		2,031,947.35	
Other notes and accounts receivable, less reserve		1,284,350.17	
Funds subject to withdrawal restrictions and deposits in closed banks, less reserve		295,051.15	
Loans to employees, less reserve		1,304,055.69	
			5,115,220.06
Capital Assets:			
Land, buildings, machinery and equipment on basis of cost or sound values as appraised with additions at cost, less adjustments written off		$162,576,539.76	
Less—Reserves for depreciation		57,960,784.46	
			104,615,755.30
Deferred Charges:			
Prepaid taxes, insurance, interest, etc		$ 764,247.46	
Sundry expenses		193,929.32	
			958,176.78
Goodwill			22,391,853.64
			$192,010,070.40

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DECEMBER 31, 1935

Liabilities

Current Liabilities:		
Accounts payable including sundry accruals	$ 17,363,979.33	
Reserves for Federal taxes	1,886,174.53	
		$ 19,250,153.86
Reserves for Contingencies		1,815,277.32
National Dairy Products Corporation 5¼% Gold Debentures due 1948:		
(Annual purchase fund requirement $2,462,000 principal amount)		
Issued	$ 82,040,500.00	
Less—Retired	14,970,000.00	
		67,070,500.00
Minority Stockholders' Interest in subsidiary companies..... (Including preferred stock of Western Maryland Dairy Corporation, preferred over common on liquidation up to $2,012,500, carried on books at $546,694.84)		1,095,623.81
Capital Stock and Capital Surplus:		
Preferred stock Class A 7% cumulative:		
Authorized—69,244 shares of $100 par value		
Issued less retired—57,339 shares	$ 5,733,900.00	
Preferred stock Class B 7% cumulative:		
Authorized—50,000 shares of $100 par value		
Issued less retired—41,370 shares	4,137,000.00	
Common stock and capital surplus:		
Common stock—		
Authorized—7,000,000 shares without par value		
Issued—6,263,165 shares at stated value	51,331,710.00	
Capital surplus, per statement attached	5,467,098.04	
		66,669,708.04
Earned Surplus, per statement attached		36,108,807.37
		$192,010,070.40

National Dairy Products Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

For the Year Ending December 31, 1935

Net sales (excluding inter-company sales)		$290,441,357.93
Deduct:		
Cost of sales, delivery, selling, administrative and general expenses	$258,861,614.61	
Repairs and maintenance (including replacements of milk bottles)	8,988,553.33	
Depreciation	8,861,653.41	
		276,711,821.35
		$ 13,729,536.58
Other income:		
Purchase discounts	$ 491,906.84	
Dividends and interest received	252,744.88	
Rents and royalties	169,731.79	
Miscellaneous other income	105,336.41	
		1,019,719.92
		$ 14,749,256.50
Deduct:		
Interest on funded debt of National Dairy Products Corporation	$ 3,534,276.76	
Other interest	74,517.67	
Organization expenses incurred during the year	14,506.63	
Dividends on preferred stock of subsidiary company held by the public	120,750.00	
		3,744,051.06
Profit before provision for Federal income tax		$ 11,005,205.44
Provision for Federal income tax		1,667,000.00
Net profit for the year		$ 9,338,205.44

Note: The net profit, after deducting dividends of $690,963.00 on the parent company's preferred stocks, was equivalent to $1.38 per share on 6,263,165 shares common stock outstanding.

National Dairy Products Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNED SURPLUS

For the Year Ending December 31, 1935

Earned surplus at December 31, 1934, per published report for that year		$35,000,785.46
Add—Net profit for 1935, per statement attached		9,338,205.44
		$44,338,990.90
Deduct—Premium on redemption of funded debt		33,795.63
		$44,305,195.27
Deduct—Dividends paid:		
On preferred stocks at $7.00 per share	$ 690,963.00	
On common stock:		
April 1, 1935—30¢ per share	$1,876,350.90	
July 1, 1935—30¢ per share	1,876,354.80	
October 1, 1935—30¢ per share	1,876,359.60	
January 2, 1936—30¢ per share	1,876,359.60	
	7,505,424.90	
		8,196,387.90
Earned surplus at December 31, 1935, per balance sheet		$36,108,807.37

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

For the Year Ending December 31, 1935

Capital surplus at December 31, 1934, per published report for that year	$5,515,801.08
Deduct:	
Goodwill purchased written off	48,703.04
Capital surplus at December 31, 1935, per balance sheet	$5,467,098.04

TO THE BOARD OF DIRECTORS OF
NATIONAL DAIRY PRODUCTS CORPORATION.

We have made an examination of the consolidated balance sheet of National Dairy Products Corporation and its subsidiary companies as at December 31, 1935 and of the consolidated statements of profit and loss and surplus for the year 1935. In connection therewith we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

In our opinion, based upon such examination, the accompanying balance sheet and related statements of profit and loss and surplus fairly present, in accordance with accepted principles of accounting consistently followed by the companies during the year under review, the combined position of National Dairy Products Corporation and its subsidiary companies as at December 31, 1935, and the combined results of their operations for the year.

PRICE, WATERHOUSE & Co.

56 Pine St.,
New York,
March 6, 1936.

AGRICULTURE'S SHARE OF THE NATION'S INCOME

Both agriculture and industry shared in the business recovery that occurred during 1935. Probably the best method of obtaining a comprehensive picture of the trend in farm conditions is to note the annual changes in the portion of total national income arising from all types of farming. According to the U. S. Department of Agriculture, the farmers' percentage of total national income has been as follows:

Avge., 1925–28	11.2%	1930	8.7%	1932	7.5%	1934	10.2%
1929	10.4%	1931	7.7%	1933	9.9%	1935	10.6%

It will be noted that in 1935 farmers received proportionately more of the nation's earnings than in 1929, and nearly as much as in the 1925 to 1928 period. Although agriculture was more seriously depressed economically than industry from 1929 to 1932, the rate of farm recovery from its 1932 low has been more rapid than that of industry.

LARGER DAIRY FARM INCOME

Despite the material improvement in all types of farm income since 1932, a larger percentage of agricultural income was derived from milk in 1935 than in the more prosperous period from 1925 to 1928. Moreover, milk is often the farmer's only ready source of cash. Besides bringing the farmer a pay check at least once a month, instead of once a season, milk has long been the largest single source of farm income in the United States. Milk also brought proportionately higher prices throughout the depression than most other crops, as is shown in the record below, compiled from data of the U. S. Department of Agriculture.

CASH FARM INCOME

	TOTAL		MILK ONLY		Percent Milk Income to Total Farm Income
	Millions of Dollars	Per cent of 1925–28 Avge.	Millions of Dollars	Per cent of 1925–28 Avge.	
Avge., 1925–28	9,904	100.0%	1,417	100.0%	14.3%
1929	10,417	105.2	1,847	130.3	17.7
1930	8,030	81.1	1,615	114.0	20.1
1931	5,801	58.6	1,279	90.3	22.0
1932	4,328	43.7	985	69.5	22.7
1933	[1] 5,409	54.6	989	69.8	18.3
1934	[2] 6,387	64.5	1,114	78.6	17.4
1935	[3] 6,943	70.1	1,249	88.1	18.0

[1] Benefit payments of $278,048,000 included.
[2] " " " $594,098,000 "
[3] " " " $580,821,000 "

NOTE: 1935 data taken from preliminary report.

POUNDS OF MILK USED

There is reported below, on a comparative basis, the approximate number of pounds of milk of 3.5% butterfat (one quart equals 2.15 pounds) used for the dairy products the company sells, including milk in fluid form as well as in the form of cheese, butter, ice cream, various condensed and evaporated milks and other manufactured milk products. This sales record excludes National Dairy's business in Miracle Whip, Kraft Mayonnaise, Deerfoot Sausage, eggs, beverages and other products not connected with milk.

Sales by Quarters	1931	1932	1933	1934	1935
1st	2,016,294,000	1,974,271,000	1,856,462,000	1,909,752,000	1,857,881,000
2nd	2,300,016,000	2,164,424,000	2,095,758,000	2,086,179,000	2,088,241,000
3rd	2,325,132,000	2,204,934,000	2,069,879,000	2,220,611,000	2,373,426,000
4th	1,993,331,000	1,948,457,000	1,868,587,000	2,060,362,000	2,145,966,000
Total	8,634,773,000	8,292,086,000	7,890,686,000	8,276,904,000	8,465,514,000
% of 1931	100.0%	96.0%	91.3%	95.8%	98.0%

EMPLOYMENT RECORD

The approximate average number of National Dairy employees during each quarter of the last five years is listed below. The favorable trend in employment during this period was possible primarily because of the relative stability of your company's sales volume.

Quarterly Average	1931	1932	1933	1934	1935
1st	34,556	32,637	29,848	32,845	33,309
2nd	36,218	34,134	31,451	36,153	36,077
3rd	35,630	33,564	33,345	36,529	37,127
4th	32,938	30,733	32,456	33,577	34,070
Annual Average	34,835	32,767	31,775	34,776	35,146
% of 1931	100.0%	94.0%	91.2%	99.8%	100.9%

NUMBER OF COMMON STOCKHOLDERS

	1931	1932	1933	1934	1935
March 31	46,219	59,212	66,885	69,058	72,735
June 30	50,117	61,758	66,366	69,683	73,585
Sept. 30	54,196	63,474	66,366	70,818	73,429
Dec. 31	58,159	65,705	68,890	71,606	72,028